

April 22, 2013

Mr. William Davidson, Deputy Secretary
Business, Transportation and Housing Agency
980 Ninth Street, Suite 2450
Sacramento, CA 95814

Dear Mr. Davidson:

Revised Final Report—Business, Transportation and Housing Agency Revolving Loan Fund

The Department of Finance, Office of State Audits and Evaluations, has revised its final report on the Business, Transportation and Housing Agency Revolving Loan Fund (RLF) issued July 3, 2012. The revisions were based on comments received from the United States Department of Commerce, Economic Development Administration, the requestor of the audit. Most of the revisions are due to the update of cash transactions through September 30, 2012. The following revisions were made to the report:

Background:

- Added sentence explaining the total number and amount of loans issued from the RLF since 1983.
- Added a footnote to clarify 15 loans were transferred to the State Controller's Office in 2004.

Scope:

- Scope section first and fourth bullet dates revised to September 30, 2012.
- Scope section paragraph regarding scope limitation was clarified to explain the unavailability of data was due to the destruction of records in accordance with the state's record retention policy, which is in compliance with the RLF grant's terms and conditions.

Methodology:

- Methodology section second bullet revised to clarify the procedures performed to substantiate the June 30, 2004 capital base.
- Methodology section seventh bullet revised to add a footnote identifying the source of the loan discount rate.

Results:

Results section revised to present information as of September 30, 2012.

RLF Capital Base and Outstanding Loans

- Revised to include one loan discharged in bankruptcy court but not formally written-off in the loans outstanding balance.

RLF Loan Portfolio's Fair Market Value

- Revised to include one loan discharged in bankruptcy court but not formally written-off in the RLF Loan Portfolio Present, Future, and Fair Market Values table.
- Added a footnote to the asterisk sentence to clarify that all four loans were issued prior to 2004 using the original federal/state contribution percentage; therefore, the state retains a proportional share of the loan repayments.

Assets Attributable to the RLF Income Prior to December 31, 2003

- Revised to clarify the unavailability of data was due to the destruction of records in accordance with the state's record retention policy, which is in compliance with the RLF grant's terms and conditions.
- Revised to clarify the methodology used to substantiate the RLF June 30, 2004 capital base.
- Revised the RLF as of June 30, 2004 table, Loans Outstanding dollars to include three loans that were in default at the time of transfer; two loans were subsequently written-off.

Assets Attributable to the RLF Income Subsequent to December 31, 2003

- Revised to add a footnote clarifying the composition of the \$1,666,666 transferred into Fund 0942 on July 1, 2004 was comprised of RLF cash totaling \$1,449,553 and a state contribution of \$217,113.
- Revised the outstanding loan amount to include three loans that were in default at the time of transfer.
- Revised to clarify RLF principal and interest payments and late fees received were allocated based on the original federal/state contribution percentage.
- Revised to clarify RLF interest income earned on idle funds was not allocated based on the original federal/state contribution percentage; the proportional share was calculated based on cash withdrawn and re-deposited between 2004 and 2012.
- Revised to clarify adjustments identified and posted to Appendix A were the result of reconciliations performed between the Trade Comm Database and the official accounting records.

Proportional Share of the Capital Base

- Revised to clarify that Appendix A tabulates the composition of the federal/state proportional share each September 30th from June 30, 2004 through September 30, 2012.
- Revised the RLF Capital As of September 30, 2012 table, Loans Outstanding line item to include one loan discharged in bankruptcy court, but not formally written-off.

Loan Portfolio Composition

- Revised to reflect an October 1, 2012 begin date.
- Revised to explain the loan portfolio as of September 30, 2012 consists of three active loans and one defaulted loan.
- Revised to include one loan discharged in bankruptcy court, but not formally written-off.
- Revised to clarify that all four loans were issued prior to 2004 using the original federal/state contribution percentage; therefore, the state retains a proportional share of the loan repayments.

Appendix A

- Added allocation percentages for all line items including the calculated federal/state proportional share as of each September 30th. In the interest of brevity, the calculations for the quarterly Surplus Money Investment Fund line item allocations are not detailed in Appendix A.
- Revised the SMIF allocations between federal and state due to an immaterial error (\$6,530 variance) in the original calculation.
- Revised to present the cash balance as of September 30, 2012.
- Revised the Audit Cost line item.

Appendix B

- Revised to present information as of September 30, 2012.
- Revised to clarify the Term of Loan, Months line item represents the original loan term.
- Revised months presented for Original Term of Loan, Months to represent original loan term.
- Revised to include one loan discharged in bankruptcy court but not formally written-off.

Appendix C

- Revised to present information from October 1, 2012 through loan maturity.

Appendix D

- Added a schedule of loans issued from the RLF and the loans' current status.

The enclosed report is for your information and use. This report will be placed on our website.

If you have any questions regarding this report, please contact Cheryl L. McCormick, Manager, at (916) 322-2985.

Sincerely,

Original signed by:

David Botelho, CPA
Chief, Office of State Audits and Evaluations

Enclosure

cc: Mr. Dan Apodaca, Program Manager, Business, Transportation and Housing Agency
Ms. Karen Kawada, Program Support, Business, Transportation and Housing Agency

REPORT

Business, Transportation and Housing Agency
Revolving Loan Fund

Prepared By:
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Final reports are available on our website at <http://www.dof.ca.gov>

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BACKGROUND, SCOPE AND METHODOLOGY

BACKGROUND

On September 30, 1983, the United States Department of Commerce, Economic Development Administration (EDA) awarded \$1,000,000 to the California Technology, Trade and Commerce Agency (CTTCA) to establish a Revolving Loan Fund (RLF). The RLF funded the California Sudden Severe Economic Dislocation Loan Program, which was intended to provide capital to create and retain jobs in areas deemed eligible by the EDA. The state provided a \$333,334 funding match for this award. On September 26, 1985, the EDA provided an additional \$666,667 with a state match of \$333,333. Total RLF capital is as follows:

RLF Capital			
Year	Federal	State	Total
1983	\$1,000,000	\$ 333,334	\$1,333,334
1985	\$ 666,667	\$ 333,333	\$1,000,000
Total Contribution	\$1,666,667	\$ 666,667	\$2,333,334
Contribution Percentage	71.43%	28.57%	100%

Since 1983, approximately 35 loans totaling \$8,965,762 have been issued from the RLF. See Appendix D for a listing of loans.

In August 2003, as part of a solution to a severe state budget deficit, California enacted Senate Bill 1757 (Chapter 229, Statutes of 2003) which abolished CTTCA. CTTCA and the statutory authority for most of its special funds and programs ceased to exist as of December 31, 2003. On January 1, 2004, pursuant to Government Code section 12418, the State Controller's Office (SCO) assumed responsibility for the RLF and was mandated to collect money due to the state on outstanding RLF loans.¹ At this time, the state formally requested the termination of the grant. On July 1, 2004, SCO closed CTTCA's California Economic Development Grant and Loan Fund (Fund 0922) and transferred \$1,666,666 into a SCO Special Deposit Fund (Fund 0942).

In 2007, California enacted Assembly Bill 162 (Chapter 312, Statutes of 2007) which transferred the RLF to the Business, Transportation and Housing Agency (BT&H), effective January 1, 2008. RLF funds were transferred from SCO's Special Deposit Fund (Fund 0942) into BT&H's Small Business Expansion Fund (Fund 0918). Although the RLF was transferred to BT&H, SCO continued to maintain and administer the loan accounts.

In May 2010, the state again requested termination of the grant, and proposed transfer of the administration and liability of the RLF to the California Enterprise Development Authority, a public joint powers authority managed by the California Association for Economic Development.

¹ At the time of transfer, 15 loans were outstanding. See Appendix D for details.

SCOPE

In accordance with an interagency agreement, the Department of Finance, Office of State Audits and Evaluations, was requested to perform the following:

- Establish the value of the RLF capital base and any loans to be assumed by the successor recipient as of September 30, 2012.
- Prepare an estimate of the loan portfolio's fair market value and the portion of assets attributable to RLF income prior to and after December 31, 2003.
- Allocate the current RLF capital base proportional to the overall grant rate of 71.43 percent federal and 28.57 percent state, less the cost of the audit as an administrative expense.
- Prepare a list of the outstanding loan portfolio, cash balance, and any related assets to be transferred, including an itemization of RLF capital and income as of September 30, 2012.

Due to the state's record retention policy, which is consistent with the RLF Terms and Conditions¹, detailed RLF program data was destroyed and therefore not available to determine the portion of assets attributable to RLF income from program inception in 1983 through December 31, 2003. However, data was available to establish the RLF capital base as of June 30, 2004.

METHODOLOGY

To complete the above objectives, we performed the following procedures:

- Interviewed key personnel at BT&H, SCO, and the California Highway Patrol² to obtain an understanding of the RLF program and the financial accounting/recordkeeping practices.
- Determined the June 30, 2004 RLF capital base by reviewing and analyzing accounting records and other relevant documents, and performing tests of reasonableness.
- Determined the value of the RLF capital base as of September 30, 2012 by reviewing and compiling information obtained from accounting records and other relevant documents.
- Analyzed activity posted to the RLF during the period July 1, 2004 through September 30, 2012 for propriety. Identified and posted adjustments as deemed necessary.
- Reconciled RLF principal, interest, and late fees collected and posted in the Trade Comm Loan Database with the official accounting records. Identified and posted adjustments as deemed necessary.
- Recalculated the proportional share of RLF activity for the period July 1, 2004 through September 30, 2012 to determine the appropriate allocation of the capital base between the federal and state governments.
- Determined the fair market value of the RLF loan portfolio by:
 - Creating a loan amortization schedule and determining the future value of all remaining payments to maturity at each loan's current interest rate.
 - Discounting the future loan values using the average commercial industrial loan rate of California banks as of September 30, 2012.³

¹ EDA Financial Assistance Award, Standard Terms and Conditions dated October 9, 2007.

² The California Highway Patrol maintains the accounting records for BT&H.

³ Federal Financial Institutions Examinations Council's, State Average Report, All Insured Commercial Banks in California as of September 30, 2012.

The results are based on our review of documentation, other information made available to us, and interviews with staff directly responsible for administering the RLF program.

RLF Capital Base and Outstanding Loans

As of September 30, 2012, the value of the RLF capital base is calculated to be \$4,372,706 which includes four outstanding loans totaling \$885,559¹.

RLF Loan Portfolio's Fair Market Value

The RLF loan portfolio's fair market value is estimated to be \$347,472. The fair market value is estimated based on a 5.98 percent discount rate and zero percent default rate. The discount rate is the average commercial loan interest rate of California banks as of September 30, 2012.² The estimated default rate was based on the length of time until loan maturity (2 – 5 years) and the payment history of the borrowers.

RLF Loan Portfolio Present, Future, and Fair Market Values			
Borrower	Principal as of September 30, 2012³	Loan Future Value⁴	Loan Fair Market Value⁵
Initiative Foods, Inc.	\$ 190,604	\$ 199,456	\$ 175,274
La Porte Union Hotel, LLC	\$ 128,325	\$ 140,271	\$ 114,978
National Auto Body	\$ 66,630	\$ 76,342	\$ 57,220
California Olive Growers	\$ 500,000	\$ 0 ⁶	\$ 0 ⁷
Total*	\$ 885,559	\$ 416,069	\$ 347,472

*The proportional share of the outstanding loan balance is 71.43 percent federal and 28.57 percent state.⁸

¹ Includes one loan totaling \$500,000 that was discharged through bankruptcy court in July 2012 and is in the process of being written-off.

² Federal Financial Institutions Examinations Council's, State Average Report, All Insured Commercial Banks in California as of September 30, 2012.

³ See Appendix B for loan portfolio.

⁴ Based on the loan balances' current loan rate (principal plus interest). See Appendix C for calculations.

⁵ Calculated using a discount rate of 5.98 percent and zero percent default rate.

⁶ Loan discharged through bankruptcy court July 2012 and in process of being written-off.

⁷ Loan discharged through bankruptcy court July 2012 and in process of being written-off.

⁸ All four loans were issued prior to 2004 using the original federal/state contribution percentage; therefore, the state retains a proportional share of the loan repayments.

Assets Attributable to the RLF Income Prior to December 31, 2003

Due to the state's record retention policy, detailed RLF program data was destroyed and therefore not available for us to determine the portion of assets attributable to RLF income for the period 1983 through 2003. However, we were able to substantiate through information analysis and tests of reasonableness, the RLF capital base as of June 30, 2004 (the last date CTTCA's California Economic Development Grant and Loan Fund (Fund 0922) was in existence before being transferred to SCO's Special Deposit Fund (Fund 0942)). The RLF capital base at June 30, 2004 was \$5,456,291. The RLF composition and the federal and state proportional share based on the initial program contribution percentage are as follows:

RLF As of June 30, 2004					
	Total	Federal Allocation		State Allocation	
Cash	\$1,449,553	\$1,035,416	71.43%	\$ 414,137	28.57%
Loans Outstanding ⁹	\$4,006,738	\$2,862,013	71.43%	\$ 1,144,725	28.57%
Capital Base	\$5,456,291	\$3,897,429	71.43%	\$ 1,558,862	28.57%

Assets Attributable to the RLF Income Subsequent to December 31, 2003

On July 1, 2004, SCO created a Special Deposit Fund (Fund 0942) for the RLF program. Cash totaling \$1,666,666¹⁰ was deposited into the fund and outstanding loans totaling \$4,006,738¹¹ were transferred into the Trade Comm Loan Database. We reviewed RLF activity for propriety during 2004 through 2012 including reconciling the Trade Comm Loan Database with the official accounting records. Variances were identified and adjustments posted as necessary to Appendix A. We allocated the loan principal and interest payments, and late fees received based on the original federal/state contribution percentage as the outstanding loans were issued prior to 2004 and therefore, the state retains a proportional share of the loan repayments. However, because the state deposited and withdrew cash funds during 2004 through 2012, we recalculated the federal/state proportional share of RLF interest income earned. Appendix A details the RLF income proportional share and allocation methodologies.

Proportional Share of the Capital Base

Because the state deposited and withdrew RLF cash funds during 2004 through 2012, the initial program contribution percentage of 71.43 percent federal and 28.57 percent state is no longer valid to allocate the RLF capital base as of September 30, 2012. Appendix A tabulates the federal/state RLF cash proportional share each September 30th. Appendix B details the outstanding loan portfolio as of September 30, 2012. Based on our calculations in Appendices A and B, the composition of the RLF as of September 30, 2012 is as follows:

⁹ Includes three loans in default at the time of transfer; two loans totaling \$547,656 were subsequently written-off in 2007 and 2008, and one loan totaling \$500,000 is in the process of being written-off.

¹⁰ Amount transferred includes \$1,449,553 RLF cash as of June 30, 2004 and a \$217,113 contribution from the state.

¹¹ Amount represents loan principal balance as of June 30, 2004.

RLF Capital As of September 30, 2012					
	Total	Federal Allocation		State Allocation	
Cash	\$3,487,147	\$3,545,053	101.66055%	\$ (57,906)	(1.66055%)
Loans Outstanding ¹²	\$ 885,559 ¹³	\$ 632,555	71.43%	\$ 253,004	28.57%
Capital Base	\$4,372,706	\$4,177,608	95.53828%	\$ 195,098	4.46172%

Loan Portfolio Composition

The RLF loan portfolio as of September 30, 2012 is comprised of three active loans and one loan discharged through bankruptcy court and in the process of being written-off. A detailed listing of the outstanding loans and the collateral pledged is documented in Appendix B.

An itemization of the projected RLF capital and income from October 1, 2012 through loan maturity is detailed in Appendix C.¹⁴ All four loans were issued prior to 2004 using the original federal/state contribution percentage; therefore, the state retains a proportional share of the loan repayments. The projected principal and interest payments for the portfolio until maturity is summarized as follows:

Projected RLF Principal and Interest Payments As of October 1, 2012 until Loan Maturity					
Borrower	Principal and Interest Payments	Federal Allocation		State Allocation	
Initiative Foods, Inc.	\$ 199,456	\$ 142,471	71.43%	\$ 56,985	28.57%
La Porte Union Hotel, LLC	\$ 140,271	\$ 100,196	71.43%	\$ 40,075	28.57%
National Auto Body	\$ 76,342	\$ 54,531	71.43%	\$ 21,811	28.57%
California Olive Growers ¹⁵	\$ 0	\$ 0	0%	\$ 0	0%
Total	\$ 416,069	\$ 297,198	71.43%	\$ 118,871	28.57%

¹² Includes one loan totaling \$500,000 that was discharged through bankruptcy court in July 2012 and is in the process of being written-off.

¹³ Principal balance as of September 30, 2012.

¹⁴ California Olive Growers loan is not included in Appendix C as the loan was discharged in bankruptcy court in July 2012 and is in the process of being written-off.

¹⁵ Loan discharged through bankruptcy court July 2012 and in process of being written-off.

RLF CASH ALLOCATION

Activity	Period	Total	Allocation Percentage	Federal	Allocation Percentage	State
Cash Balance, 6/30/04		\$1,449,553.35	0.7143	\$1,035,415.96	0.2857	\$414,137.39
<u>Add</u>						
Transfer In From CA General Fund (GF) to Revolving Loan Fund (RLF)		217,112.65	0.0000	-	1.0000	217,112.65
Cash Balance, 7/1/04		1,666,666.00	0.6212	1,035,415.96	0.3788	631,250.04
<u>Add</u>	7/1/04-6/30/05					
RLF Principal ¹		596,688.91	0.7143	426,214.89	0.2857	170,474.02
RLF Interest Income ¹		124,507.11	0.7143	88,935.43	0.2857	35,571.68
RLF Late Fees ¹		3,663.93	0.7143	2,617.15	0.2857	1,046.78
<u>Less</u>						
Deposits into GF		(724,859.95)	0.0000	-	1.0000	(724,859.95)
Cash Balance, 6/30/05		1,666,666.00	0.9319	1,553,183.43	0.0681	113,482.57
<u>Add</u>	7/1/05-9/30/06					
RLF Principal		713,355.33	0.7143	509,549.71	0.2857	203,805.62
RLF Interest Income		134,816.00	0.7143	96,299.07	0.2857	38,516.93
RLF Late Fees		16,718.29	0.7143	11,941.87	0.2857	4,776.42
Other Misc RLF Income		1,333.96	0.7143	952.85	0.2857	381.11
SMIF ²		5,393.58		5,162.88		230.70
Transfers In to RLF from GF		226,562.12	0.0000	-	1.0000	226,562.12
<u>Less</u>						
Deposits into GF		(477,457.34)	0.0000	-	1.0000	(477,457.34)
Cash Balance, 9/30/06		2,287,387.94	0.9518	2,177,089.81	0.0482	110,298.13
<u>Add</u>	10/1/06-9/30/07					
RLF Principal		266,610.55	0.7143	190,439.92	0.2857	76,170.63
RLF Interest Income		71,679.98	0.7143	51,201.01	0.2857	20,478.97
RLF Late Fees		4,347.00	0.7143	3,105.06	0.2857	1,241.94
Other Misc RLF Income		203.13	0.7143	145.10	0.2857	58.03
SMIF		121,785.80		116,138.53		5,647.27
<u>Less</u>						
Deposits into GF		(97,891.54)	0.0000	-	1.0000	(97,891.54)
Cash Balance, 9/30/07		2,654,122.86	0.9563	2,538,119.43	0.0437	116,003.43
<u>Add</u>	10/1/07-9/30/08					
RLF Principal		408,731.82	0.7143	291,957.14	0.2857	116,774.68
RLF Interest Income		59,459.04	0.7143	42,471.59	0.2857	16,987.45
SMIF		115,558.16		112,264.73		3,293.43
<u>Less</u>						
Deposits into GF		(88,718.18)	0.0000	-	1.0000	(88,718.18)
Transfers Out from RLF to GF Due to Error		(146,130.47)	0.0000	-	1.0000	(146,130.47)
Transfers Out from RLF to GF - Administration ³		(18,974.24)	0.7143	(13,553.30)	0.2857	(5,420.94)
Cash Balance, 9/30/08		2,984,048.99	0.9957	2,971,259.59	0.0043	12,789.40

¹ RLF principal payments, interest income, and late fees received are allocated using the original contribution percentage of federal/state as all four loans were issued prior to December 31, 2003. We assume that the state did not withdraw a portion of its match prior to December 31, 2003.

² Surplus Money Investment Fund (SMIF) interest is the interest earned on RLF cash. SMIF was allocated quarterly based on the federal/state proportional share at quarter end. SMIF was not earned July 1, 2004 through June 9, 2006 as the funds resided in a non-interest bearing account.

³ Per the grant agreement, Project No. 07-19-02709, Special Terms and Conditions, Section III B, administrative costs are eligible expenditures against program income. Administrative costs are allocated based on the original federal/state contribution percentage.

Activity	Period	Total	Allocation Percentage	Federal	Allocation Percentage	State
<u>Add</u>	10/1/08-9/30/09					
RLF Principal		382,710.89	0.7143	273,370.39	0.2857	109,340.50
RLF Interest Income		34,295.65	0.7143	24,497.38	0.2857	9,798.27
SMIF		76,558.84		63,695.38		12,863.46
Transfers In to RLF from GF		832,000.00	0.0000	-	1.0000	832,000.00
<u>Less</u>						
Transfers Out from RLF to GF- Administration		(21,780.00)	0.7143	(15,557.45)	0.2857	(6,222.55)
Cash Balance, 9/30/09		4,287,834.37	0.7736	3,317,265.29	0.2264	970,569.08
<u>Add</u>	10/1/09-9/30/10					
RLF Principal		55,503.34	0.7143	39,646.04	0.2857	15,857.30
RLF Interest Income		26,155.67	0.7143	18,683.00	0.2857	7,472.67
SMIF		26,014.54		22,608.91		3,405.63
<u>Less</u>						
Deposits into GF		(1,068,078.54)	0.0000	-	1.0000	(1,068,078.54)
Transfers Out from RLF to GF - Administration		(9,673.55)	0.7143	(6,909.82)	0.2857	(2,763.73)
Federal Interest Payment		(1,904.88)	1.0000	(1,904.88)	0.0000	
Cash Balance, 9/30/10		3,315,850.95	1.0222	3,389,388.54	-0.0222	(73,537.59)
<u>Add</u>	10/1/10-9/30/11					
RLF Principal		52,163.68	0.7143	37,260.52	0.2857	14,903.16
RLF Interest Income		23,623.25	0.7143	16,874.09	0.2857	6,749.16
RLF Late Fees		1,133.91	0.7143	809.95	0.2857	323.96
SMIF		16,602.66		16,928.72		(326.06)
Cash Balance, 9/30/11		3,409,374.45	1.0152	3,461,261.82	-0.0152	(51,887.37)
<u>Add</u>	10/1/11-9/30/12					
RLF Principal ⁵		80,170.49	0.7143	57,265.78	0.2857	22,904.71
RLF Interest Income ⁵		22,245.75	0.7143	15,890.13	0.2857	6,355.62
RLF Late Fees		666.80	0.7143	476.30	0.2857	190.50
SMIF ⁶		12,855.14		13,014.65		(159.51)
<u>Less</u>						
Transfers Out from RLF to GF - Administration		(3,165.26)	0.7143	(2,260.95)	0.2857	(904.31)
Cash Balance, 9/30/12 Subtotal⁴		3,522,147.37	1.0067	3,545,647.73	-0.0067	(23,500.36)
<u>Adjustments</u>						
<u>Add</u>						
RLF Principal Received ⁷		17,791.51	0.7143	12,708.48	0.2857	5,083.03
RLF Interest and Late Fees Received ⁷		7,876.16	0.7143	5,625.94	0.2857	2,250.22
Estimated SMIF Earned January - June 2004 ⁸		8,500.00	0.7143	6,071.55	0.2857	2,428.45
<u>Less</u>						
Deposits to GF		(34,167.67)	0.0000	-	1.0000	(34,167.67)
Adjusted Cash Balance, 9/30/12 Subtotal⁴		\$ 3,522,147.37	1.0136	\$ 3,570,053.70	-0.0136	\$ (47,906.33)
<u>Less</u>						
Audit Cost		(35,000.00)	0.7143	(25,000.50)	0.2857	(9,999.50)
Adjusted Cash Balance, 9/30/12		\$ 3,487,147.37	1.0166055	\$ 3,545,053.20	-0.0166055	\$ (57,905.83)

⁴ Total cash balance reconciles with the RLF cash balance per the official accounting records.

⁵ Amounts include September principal payments totaling \$7,293.80 and interest payments totaling \$1,548.48 received per Trade Comm Loan Database but not yet posted to CalStars (ie. accounting records).

⁶ Amount represents SMIF interest earned through June 30, 2012.

⁷ RLF principal and interest payments received per Trade Comm Loan Database but not posted to the RLF, we assume the funds were posted to the general fund.

⁸ SMIF interest earned but not posted to the RLF, we assume the funds were posted to the general fund.

RLF
Loan Portfolio and Collateral
As of September 30, 2012

		Type of Collateral Securing Loan			
		Deed of Trust	Security Agreement	UCC Financing Statement	Guarantees
Borrower:	Initiative Foods, Inc.	√ ¹	√	√	√
Loan Account Number:	5N0033				
Original Loan Amount:	\$500,000				
Interest Rate, Type of Interest Rate:	4%, Fixed Rate				
Closing Date:	December 12, 2002				
Original Term of Loan, Months	86				
Principal Balance, as of September 30, 2012:	\$190,604				
Borrower:	La Porte Union Hotel, LLC	√	√	√	√
Loan Account Number:	5N0031				
Original Loan Amount:	\$435,000				
Interest Rate, Type of Interest Rate:	5.3%, Fixed Rate				
Closing Date:	February 1, 2000				
Original Term of Loan, Months	180				
Principal Balance, as of September 30, 2012:	\$128,325				
Borrower:	National Auto Body	√			
Loan Account Number:	5L0025				
Original Loan Amount:	\$190,000				
Interest Rate, Type of Interest Rate:	5.75%, Fixed Rate				
Closing Date:	August 1, 1996				
Original Term of Loan, Months	240				
Principal Balance, as of September 30, 2012:	\$66,630				
Borrower:	California Olive Growers		√		
Loan Account Number:	5N0034				
Original Loan Amount:	\$500,000				
Interest Rate, Type of Interest Rate:	6.5%, Fixed Rate				
Closing Date:	September 1, 2001				
Original Term of Loan, Months	84				
Principal Balance, as of September 30, 2012:	\$500,000				
Total Principal Balance as of September 30, 2012	\$885,559				

¹ The State of California has second position on the Deed of Trust. Comerica Bank has the first position.

Initiative Foods, Inc.
Estimated Loan Amortization Schedule
As of September 30, 2012

Payment No.	Payment Year	Payment Month	Loan Balance	Monthly Rate	Interest	Principal Payment	Total Payment
1	2012	October	\$ 190,603.60	0.0033	\$ 635.35	\$ 3,364.65	\$ 4,000.00
2		November	187,238.95	0.0033	624.13	7,198.46	7,822.59
3		December	180,040.49	0.0033	600.13	7,222.46	7,822.59
4	2013	January	172,818.03	0.0033	576.06	7,246.53	7,822.59
5		February	165,571.50	0.0033	551.91	7,270.68	7,822.59
6		March	158,300.82	0.0033	527.67	7,294.92	7,822.59
7		April	151,005.89	0.0033	503.35	7,319.24	7,822.59
8		May	143,686.66	0.0033	478.96	7,343.63	7,822.59
9		June	136,343.02	0.0033	454.48	7,368.11	7,822.59
10		July	128,974.91	0.0033	429.92	7,392.67	7,822.59
11		August	121,582.24	0.0033	405.27	7,417.32	7,822.59
12		September	114,164.92	0.0033	380.55	7,442.04	7,822.59
13		October	106,722.88	0.0033	355.74	7,466.85	7,822.59
14		November	99,256.03	0.0033	330.85	7,491.74	7,822.59
15		December	91,764.30	0.0033	305.88	7,516.71	7,822.59
16	2014	January	84,247.59	0.0033	280.83	7,541.76	7,822.59
17		February	76,705.82	0.0033	255.69	7,566.90	7,822.59
18		March	69,138.92	0.0033	230.46	7,592.13	7,822.59
19		April	61,546.79	0.0033	205.16	7,617.43	7,822.59
20		May	53,929.36	0.0033	179.76	7,642.83	7,822.59
21		June	46,286.53	0.0033	154.29	7,668.30	7,822.59
22		July	38,618.23	0.0033	128.73	7,693.86	7,822.59
23		August	30,924.37	0.0033	103.08	7,719.51	7,822.59
24		September	23,204.86	0.0033	77.35	7,745.24	7,822.59
25		October	15,459.62	0.0033	51.53	7,771.06	7,822.59
26		November	7,688.56	0.0033	25.63	7,688.56	7,714.19
27		December	(0.00)				
Total					\$ 8,852.76	\$ 190,603.59	\$ 199,456.35

La Porte Union Hotel , LLC
Estimated Loan Amortization Schedule
As of September 30, 2012

Payment No.	Payment Year	Payment Month	Loan Balance	Monthly Rate	Interest	Principal Payment	Total Payment
1	2012	October	\$ 128,324.74	0.0044	\$ 566.77	\$ 2,941.55	\$ 3,508.32
2		November	125,383.19	0.0044	553.78	2,954.54	3,508.32
3		December	122,428.64	0.0044	540.73	2,967.59	3,508.32
4	2013	January	119,461.05	0.0044	527.62	2,980.70	3,508.32
5		February	116,480.35	0.0044	514.45	2,993.87	3,508.32
6		March	113,486.48	0.0044	501.23	3,007.09	3,508.32
7		April	110,479.40	0.0044	487.95	3,020.37	3,508.32
8		May	107,459.03	0.0044	474.61	3,033.71	3,508.32
9		June	104,425.32	0.0044	461.21	3,047.11	3,508.32
10		July	101,378.21	0.0044	447.75	3,060.57	3,508.32
11		August	98,317.64	0.0044	434.24	3,074.08	3,508.32
12		September	95,243.56	0.0044	420.66	3,087.66	3,508.32
13		October	92,155.90	0.0044	407.02	3,101.30	3,508.32
14		November	89,054.60	0.0044	393.32	3,115.00	3,508.32
15		December	85,939.60	0.0044	379.57	3,128.75	3,508.32
16	2014	January	82,810.85	0.0044	365.75	3,142.57	3,508.32
17		February	79,668.28	0.0044	351.87	3,156.45	3,508.32
18		March	76,511.83	0.0044	337.93	3,170.39	3,508.32
19		April	73,341.43	0.0044	323.92	3,184.40	3,508.32
20		May	70,157.04	0.0044	309.86	3,198.46	3,508.32
21		June	66,958.58	0.0044	295.73	3,212.59	3,508.32
22		July	63,745.99	0.0044	281.54	3,226.78	3,508.32
23		August	60,519.22	0.0044	267.29	3,241.03	3,508.32
24		September	57,278.19	0.0044	252.98	3,255.34	3,508.32
25		October	54,022.85	0.0044	238.60	3,269.72	3,508.32
26		November	50,753.13	0.0044	224.16	3,284.16	3,508.32
27		December	47,468.97	0.0044	209.65	3,298.67	3,508.32
28	2015	January	44,170.31	0.0044	195.09	3,313.23	3,508.32
29		February	40,857.07	0.0044	180.45	3,327.87	3,508.32
30		March	37,529.20	0.0044	165.75	3,342.57	3,508.32
31		April	34,186.64	0.0044	150.99	3,357.33	3,508.32
32		May	30,829.31	0.0044	136.16	3,372.16	3,508.32
33		June	27,457.15	0.0044	121.27	3,387.05	3,508.32
34		July	24,070.10	0.0044	106.31	3,402.01	3,508.32
35		August	20,668.09	0.0044	91.28	3,417.04	3,508.32
36		September	17,251.05	0.0044	76.19	3,432.13	3,508.32
37		October	13,818.93	0.0044	61.03	3,447.29	3,508.32
38		November	10,371.64	0.0044	45.81	3,462.51	3,508.32
39		December	6,909.13	0.0044	30.52	3,477.80	3,508.32
40	2016	January	3,431.32	0.0044	15.16	3,431.32	3,446.48
41		February	(0.00)				
Total					\$ 11,946.22	\$ 128,324.74	\$ 140,270.96

National Auto Body
Estimated Loan Amortization Schedule
As of September 30, 2012

Payment No.	Payment Year	Payment Month	Loan Balance	Monthly Rate	Interest	Principal Payment	Total Payment
1	2012	October	\$ 66,630.25	0.00479	\$ 319.27	\$ 1,014.69	\$ 1,333.96
2		November	65,615.56	0.00479	314.41	1,019.55	1,333.96
3		December	64,596.01	0.00479	309.52	1,024.44	1,333.96
4	2013	January	63,571.57	0.00479	304.61	1,029.35	1,333.96
5		February	62,542.22	0.00479	299.68	1,034.28	1,333.96
6		March	61,507.95	0.00479	294.73	1,039.23	1,333.96
7		April	60,468.71	0.00479	289.75	1,044.21	1,333.96
8		May	59,424.50	0.00479	284.74	1,049.22	1,333.96
9		June	58,375.28	0.00479	279.71	1,054.25	1,333.96
10		July	57,321.03	0.00479	274.66	1,059.30	1,333.96
11		August	56,261.74	0.00479	269.59	1,064.37	1,333.96
12		September	55,197.37	0.00479	264.49	1,069.47	1,333.96
13		October	54,127.89	0.00479	259.36	1,074.60	1,333.96
14		November	53,053.30	0.00479	254.21	1,079.75	1,333.96
15		December	51,973.55	0.00479	249.04	1,084.92	1,333.96
16	2014	January	50,888.63	0.00479	243.84	1,090.12	1,333.96
17		February	49,798.51	0.00479	238.62	1,095.34	1,333.96
18		March	48,703.17	0.00479	233.37	1,100.59	1,333.96
19		April	47,602.58	0.00479	228.10	1,105.86	1,333.96
20		May	46,496.71	0.00479	222.80	1,111.16	1,333.96
21		June	45,385.55	0.00479	217.47	1,116.49	1,333.96
22		July	44,269.06	0.00479	212.12	1,121.84	1,333.96
23		August	43,147.23	0.00479	206.75	1,127.21	1,333.96
24		September	42,020.01	0.00479	201.35	1,132.61	1,333.96
25		October	40,887.40	0.00479	195.92	1,138.04	1,333.96
26		November	39,749.36	0.00479	190.47	1,143.49	1,333.96
27		December	38,605.86	0.00479	184.99	1,148.97	1,333.96
28	2015	January	37,456.89	0.00479	179.48	1,154.48	1,333.96
29		February	36,302.41	0.00479	173.95	1,160.01	1,333.96
30		March	35,142.40	0.00479	168.39	1,165.57	1,333.96
31		April	33,976.83	0.00479	162.81	1,171.15	1,333.96
32		May	32,805.68	0.00479	157.19	1,176.77	1,333.96
33		June	31,628.91	0.00479	151.56	1,182.40	1,333.96
34		July	30,446.50	0.00479	145.89	1,188.07	1,333.96
35		August	29,258.43	0.00479	140.20	1,193.76	1,333.96
36		September	28,064.67	0.00479	134.48	1,199.48	1,333.96
37		October	26,865.19	0.00479	128.73	1,205.23	1,333.96
38		November	25,659.96	0.00479	122.95	1,211.01	1,333.96
39		December	24,448.95	0.00479	117.15	1,216.81	1,333.96
40	2016	January	23,232.14	0.00479	111.32	1,222.64	1,333.96
41		February	22,009.50	0.00479	105.46	1,228.50	1,333.96
42		March	20,781.00	0.00479	99.58	1,234.38	1,333.96
43		April	19,546.62	0.00479	93.66	1,240.30	1,333.96
44		May	18,306.32	0.00479	87.72	1,246.24	1,333.96
45		June	17,060.08	0.00479	81.75	1,252.21	1,333.96
46		July	15,807.86	0.00479	75.75	1,258.21	1,333.96
47		August	14,549.65	0.00479	69.72	1,264.24	1,333.96
48		September	13,285.41	0.00479	63.66	1,270.30	1,333.96
49		October	12,015.11	0.00479	57.57	1,276.39	1,333.96
50		November	10,738.72	0.00479	51.46	1,282.50	1,333.96
51		December	9,456.22	0.00479	45.31	1,288.65	1,333.96
52	2017	January	8,167.57	0.00479	39.14	1,294.82	1,333.96
53		February	6,872.74	0.00479	32.93	1,301.03	1,333.96
54		March	5,571.71	0.00479	26.70	1,307.26	1,333.96
55		April	4,264.45	0.00479	20.43	1,313.53	1,333.96
56		May	2,950.93	0.00479	14.14	1,319.82	1,333.96
57		June	1,631.11	0.00479	7.82	1,326.14	1,333.96
58		July	304.96	0.00479	1.46	304.96	306.42
59		August	0.00				
Total					\$ 9,711.89	\$ 66,630.25	\$ 76,342.14

Summary Schedule of All Loans ¹

Loans - Transferred to SCO in 2004		Principal Issued	Status ²
1	Joseph Antonucci	\$ 190,000	Current
2	La Porte Union Hotel	435,000	Current
3	Initiative Foods	500,000	Current
4	Astro Seal	500,000	Paid off
5	Mark Meddock MTM Industrial	240,000	Paid off
6	Sputtered Films	500,000	Paid off
7	Smith Family Limited Partnership	500,000	Paid off
8	Maria Ramirez Alennis Bridal & Trims	50,000	Paid off
9	GEH Farms	500,000	Paid off
10	The Singjoy Company	135,744	Paid off
11	John L Shedd	500,000	Paid off
12	HIT Products Corporation	500,000	Paid off
13	Just Desserts	500,000	Written-off
14	Donald P Suderman SUDCO	126,685	Written-off
15	California Olive Growers ³	500,000	Bankruptcy
Subtotal		\$ 5,677,429	
Loans Paid/Written Off Prior to 2004			
16	Table Bluff Brewery	\$ 140,000	Paid off
17	Superior Distribution	135,000	Paid off
18	Unity Forest Products	105,000	Paid off
19	American Underwear Products 1	192,000	Paid off
20	American Underwear Products 2	208,000	Paid off
21	Amber Foods	100,000	Paid off
22	Hillside Coffee	45,000	Paid off
23	Ideal Connections	150,000	Paid off
24	International Fab & Eng Direct	200,000	Paid off
25	Packaging Specialist	30,000	Paid off
26	SECO Manufacturing	140,000	Paid off
27	Valley Color Graphics	100,000	Paid off
28	Voltage Multipliers	250,000	Paid off
29	International Fab & Eng Direct 2	200,000	Paid off
30	HIT Products Corporation 2	150,000	Paid off
31	Packaging Specialist 2	110,000	Paid off
32	DataTech Magnetics	333,333	Written-off
33	LA Burch	100,000	Written-off
34	Nu Way Plating	100,000	Written-off
35	Falzetti Umbrella	500,000	Written-off
Subtotal		\$ 3,288,333	
Total		\$ 8,965,762	

¹ Information presented for informational purposes only and has not been validated by source documentation.

² As of September 30, 2012.

³ Loan has been discharged in bankruptcy court in July 2012 and is in the process of being written-off.